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Iran will be unable to operate its oil industry when the Anglo-Iranian Oil Company withdraws. Resulting economic and political dislocations may set the stage for the installation of a leftist pro-Soviet government, thus in effect placing Iran in the Soviet Orbit.

British Government Increasingly Harassed by Impact of Rearmament Program

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The rearmament program is causing the Labor Government increasing difficulties by threatening Britain's economic recovery and stimulating the small dissident left-wing Labor Party group to greater activity.

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Combat capabilities of the Eastern European Satellite armies have developed markedly during the past 18 months, but only the Bulgarian and Rumanian Armies are considered capable at present of launching an armed attack. The current stress on Satellite military preparations strongly indicates preparations for eventual, rather than imminent hostilities.

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Until a final settlement is reached, the Saar issue will arise recurrently to impede French-German cooperation in important matters. At present, Bonn, though protesting French suppression of democracy, in the Saar, is defending a Saar party that is by no means democratic.

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The WEEKLY REVIEW of selected intelligence articles has been prepared for the internal use of the Central Intelligence Agency. The opinions expressed in this publication represent the views of the Office of Current Intelligence.

The Internal Effects of Closing Down the Iranian Oil Industry

The Abadan refinery, which hitherto has produced about 550,000 barrels a day, will have to stop production in the near future because of a lack of storage facilities. Crude oil production will also then cease; and lack of tanker shipping will mean that practically no oil can leave Abadan.

The internal effects of this stoppage will be severe in both the political and economic fields. About 80,000 Iranians will be unemployed and the government will have lost the 40% of its revenues which it formerly derived from oil royalties. Government income might be temporarily increased by the sale of bonds, or by an increase in the note issue, but such measures would not suffice to pay the army and civil service indefinitely. Non-payment of salaries over an extended period of time, with the concomitant lowering of morale, will endanger internal stability.

Iran's inability to exploit its own largest potential source of wealth will further internal instability by providing a ready subject for propaganda by all dissident elements. Not only will the means now be gone whereby the Seven Year Plan could have been implemented, but all other progressive plans will have to be shelved. Foreign exchange will become short, unemployment will grow, and transportation will be slowed down, if not halted.

Prime Minister Mossadeq will not be able to remain in office when it is ~~... cannot make good his promise of wealth through oil.~~

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it is possible that the Tudeh Party could put itself into power within a few months. No active support from the USSR would then be necessary to cause Iran to fall into the Soviet sphere of influence.

British Government Increasingly Harassed by Impact of Rearmament Program

The British Government is finding itself increasingly on the defensive as a result of recent adverse economic and political developments attendant upon the rearmament program. An unfavorable trend in Britain's terms of trade is growing much faster than was expected, and the economic problems that arise promise to aggravate a recurring conflict within the Labor Party over government policy.

A decrease in Britain's sterling trade surplus in 1951 was forecast in the Economic Survey which the British Treasury issued in April; however, the drastic drop in the net gold and dollar earnings of the sterling area to \$54 million in the second quarter of 1951 from the first quarter's surplus of \$360 million was not expected. Chancellor of the Exchequer Gaitskell recently warned that the situation will probably continue to worsen, since the factors responsible for the decline in the gold and dollar surplus will remain. No relief is seen from the prices Britain must pay for her essential food and raw materials imports from the dollar area, now averaging 42% above last year's prices. The decline in sterling area sales to dollar markets, moreover, will probably continue if international tension appreciably lessens, since Britain's remarkable recovery in its balance of payments position in 1950 was due to a large extent to world markets swollen by the threat of a general war. The possible loss of Iranian oil earnings has heightened the gravity of the situation. Lower domestic consumption is a natural result, but this would involve serious political risks to the government, with its majority of only six, the smallest any government has had to work with in recent British parliamentary history.

The threat of the rearmament program to Britain's economic recovery is having political repercussions. The small left-wing group of the Labor Party which has until recently been merely a source of embarrassment to the government, has lately become more audible in its desire for a change in policy. This faction, headed by ex-Cabinet Minister Aneurin Bevan, is pressing for a reduction in arms expenditures, a program of further nationalization, and more social welfare measures. If there is evidence during the summer of some let-up in international tension, the left-wing Laborites will become even more volatile. Should the government attempt to restrict consumer goods still further in an effort to cut down the volume of imports, it is quite possible that the group will gain a sizeable amount of support from a restive rank-and-file. Although this group cannot gain control of the party in the near future, a widening split would most seriously prejudice the Labor Party's chances in an early general election.

The recent furor caused by the remarks of several government officials to the effect that, with the prospect of a settlement of the Korean war, the immediacy of the defense program is not so great, shows how tenuous is the

government's position. Until the next general election, the date of which is still undetermined, the government will be beset on all sides. It will be plagued by fear of a recurrence of the 1949 economic disaster and will be concerned with the continuing threat of its left-wingers to the stability of the Labor Party. The top party leadership, which has, so far, been able to convince its followers that the rearmament program is necessary to repel Communist aggression, will be in a difficult position. Any desire to alleviate domestic strain in order to retain Labor Party solidarity will be weighted against the subsequent weakening of Anglo-American cooperation, the continuance of which is the most important single principle in British foreign policy today.

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Capabilities of the Satellite Armed Forces

Combat capabilities of the Eastern European Satellite armies have developed markedly during the past 18 months. During this period the total strength of these armies has increased from 607,500 to 875,000 and from 54 to 65 line divisions. Intensification of training in Soviet tactics and ideology, reorganization to conform to the Soviet pattern, the presence of large numbers of Soviet advisers, and accelerated deliveries of Soviet materiel are steadily bringing all of the Satellite armies closer to combat readiness. This Sovietization process, however, at the present time approaches completion only in Bulgaria and Rumania. The armies of these two countries are considered capable of launching an armed attack. The expansion and effectiveness of the Satellite armies may be expected to continue at an accelerated pace throughout 1951. The current stress on Satellite military preparations strongly indicates preparations for eventual, rather than imminent hostilities.

Bulgaria

Bulgaria possesses the best army of all the Eastern European Satellites. It is composed of 165,000 men, organized into at least 13 divisions. Repeated purges and a historic military orientation toward Russia make the Bulgarian Army relatively amenable to Soviet direction. The advanced state of its training, including army level maneuvers, as well as its complete reequipment with Soviet armament, could enable the Bulgarian Army to undertake offensive action with little or no prior warning.

Rumania

The Rumanian Army comprises 13 divisions containing 230,000 men. It is generally considered second to Bulgaria in the degree of Sovietization, and probably has attained a relatively advanced state of combat readiness. Other than the Bulgarian Army, the Rumanian Army was the only Satellite military force which was being readied for action prior to 1950. Throughout 1950 new units were being established, training in Soviet doctrine was being intensified, and a continuous flow of Soviet equipment was arriving in Rumania. The Rumanian Army's mechanized equipment is now estimated to be almost totally of Soviet origin, except for its motor transport, which is of Czechoslovak manufacture. The US Army Attache estimates that Rumania could support 22 divisions after full mobilization.

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Albania

The Albanian Army consists of 45,000 men organized in four divisions. It is being trained as a defensive force. The Albanian Army remains weak because of poor leadership, low morale, and questionable loyalty. Its present heterogeneous collection of equipment is gradually being replaced by Soviet materiel.

Hungary

The Hungarian Army in less than one year has expanded from 35,000 to 100,000 men, organized into 9 divisions. In addition to its great expansion, reorganization along the lines of the Soviet Army, an accelerated personnel training program, and increasing, but as yet incomplete, availability of Soviet equipment all are contributing to a marked improvement in Hungarian Army capabilities. The US Army Attache in Budapest estimates, however, that the army remains, by itself, incapable of sustained offensive or defensive operations against a Western force of comparable size. He notes, on the other hand, that a preponderance of signal, anti-aircraft, and engineering troops indicates a definite effort to create an army of relatively high technical ability for either support of, or integrated operations with the Soviet Army.

Czechoslovakia

The Czechoslovak Army includes 10 divisions, embracing some 135,000 men. It is a second-rate army hampered by poor morale and the absence of strong leadership. Several factors contribute to the poor status of the army: (1) lack of standardization and obsolescence of equipment; (2) only rudimentary training in Soviet tactics; (3) incomplete reorganization of units and staffs to conform to the Soviet pattern; and (4) questionable reliability except in opposition to German aggression. Any appreciable expansion of the Czechoslovak Army would be at the expense of industrial and military production, since the Czechoslovak economy is already suffering from a manpower shortage. With Soviet assistance, Czechoslovakia could support 150-160,000 men under arms by the end of 1951.

Poland

It is currently estimated that the Polish Army is composed of 200,000 men, comprising 16 line divisions, a figure which may be increased to 22 by the end of 1951. Of the 16 divisions, it is estimated that approximately six are effectively trained in Soviet tactical doctrine and furnished with Soviet equipment. Because the unit and staff organizations conform to Soviet pattern and because Soviet officers are being increasingly assigned down to company level, units of the Polish Army could either be employed separately or integrated with Soviet formations. Poor morale and ideological deficiencies, on the other hand, continue to lessen its effectiveness.

East Germany

The USSR has greatly strengthened the East German Bereitschaften (Alert Police) during the past 18 months, despite the fact that East Germany is not allowed an army under the Potsdam Agreement. A broad reorganization of the Police is in progress, and its personnel strength has increased from 36,000 to 52,000 since early 1950. This force appears to have been changed from a

basic training organization into 24 tactical commands, which are the equivalent of understrength regiments combining infantry, artillery and tank units. The reorganization has established a basis for rapid expansion of the 24 tactical units into full-fledged divisions, while maintaining the fiction of being a police force.

Saar Issue Imperils Franco-German Accord on Larger Matters

Acrimonious debate over the Saar question, generating ill feeling between Germany and France, is bound to continue until a German peace treaty or other agreement makes a final disposition of the territory. This much has been made clear again in the renewed debates over the Saar in the West German Bundestag and in a recent speech at Landau, near the Saar border, by Jakob Kaiser, the Federal Republic's Minister for All-German Affairs, calling for self-determination for the people of the Saar.

The basic issue involved in the dispute is whether the area will again become part of Germany. The immediate question, however, is that of democratic practice in the Saar. This phase began in May when Saar Minister-President Hoffman, at the instigation of French Foreign Minister Schuman, banned the small Saar Democratic Party (DPS) on the grounds that, by favoring the Saar's return to Germany, the DPS was aiming to upset the present status of the territory. Hoffman's action not only angered the West Germans, but was protested by Chancellor Adenauer, who asked the US, UK, and France to take steps to restore in the Saar unrestricted freedom of expression and free development of the will of the people. The Allies are still considering their reply to Adenauer.

There is little room for doubt that the French discourage the free development of the will of the Saarlanders. A US representative in France estimates that 80 to 85 percent of the people would vote in favor of complete reintegration with Germany if a plebiscite were held. Yet even the possibility of holding a plebiscite is a forbidden topic of discussion in the Saar press.

In April 1947 the Allies agreed to the economic attachment of the Saar to France, leaving the ultimate fate of the territory to be settled in an peace treaty. The French Military Governor then launched a repressive campaign: he ejected persons hostile to French policy, and discouraged publicity for the proposed Saar constitution, the preamble of which declares the territory's independence of Germany. He also rejected requests for a popular referendum on the constitution and warned that opposition to the document would mean the withdrawal of promised economic benefits. In the October 1947 elections conducted under these conditions, 80 percent of the vote went to the three parties that supported the constitution.

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It is ironic that in its pressure for democratic practice in the Saar the Bonn Government should find itself defending the DPS.

The DPS has exhibited no fondness for democracy since a group of wealthy newcomers to the party, led by textile manufacturer Richard Becker, seized control in the summer of 1950, causing the resignation from the party of the three

DPS deputies in the Landtag, who did not concur in its new, strongly pro-German policy. Since that time, the DPS has been identifying itself more openly with the interests of former Nazis.

The need for a definitive solution in the Saar is illustrated not only by the fact that, last year, Germany's adherence to the Council of Europe was threatened when the French acquired 50-year leases of the Saar mines, but again in the present situation, which finds the Saar dispute jeopardizing German acceptance of the Schuman Plan.